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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 000048

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EUR FOR DAS BRYZA, EB FOR ENERGY COORDINATOR MANN

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TAGS: [ECON](#) [ENRG](#) [PGOV](#) [BU](#)
SUBJECT: BULGARIA SIGNS SOUTH STREAM INTERGOVERNMENTAL
AGREEMENT DURING PUTIN VISIT

REF: A. SOFIA 0033
[1](#)B. SOFIA 0023 AND PREVIOUS

Classified By: CDA Alex Karagiannis for reasons 1.4 (b) and (d).

[1](#)1. (C) After an intense round of negotiations which lasted into the morning of January 18, the GOB signed an intergovernmental agreement (IGA) with Russia on the South Stream pipeline. Lead Bulgarian South Stream negotiator Deputy Energy Minister Galina Tosheva told us hours before the document was signed that the agreement (which we have not seen) includes 50/50 ownership of the pipeline on Bulgarian territory (Russia had insisted on majority ownership, while Bulgaria's U.S.-based legal counsel Paul Hastings had recommended at least 50.01 percent for Bulgaria); linkage to a multi-lateral agreement (a key clause according to Paul Hastings); mention of ship or pay guarantees, but with no percentage specified; a weakly worded provision for the Bulgarian right to collect transit taxes; third party access to the pipeline; and a theoretical option for Bulgaria to participate in the underwater section of the pipeline. Tosheva described the agreement as better than the original Russian offer, but worse than she would have liked.

[1](#)2. (C) The IGA signing was in doubt until the last minute. On January 14, after Bulgaria offered the Russian side 50/50 ownership (Note: this offer was never made public, ref B), Russia sent additional South Stream negotiators to hammer out an IGA. These talks ended January 15 with no agreement and a relieved Tosheva predicted the IGA would not be signed during Putin's visit. Russian pressure then began at a political level, with, according to Tosheva, at least two calls between Putin and PM Stanishev. Tosheva informed us January 17 she feared the GOB was about to give in to Russian demands and sign an agreement which provided for 50/50 ownership, but no other concessions to Bulgaria. Meanwhile, attorneys from Paul Hastings were frustrated they were being shut out of Bulgarian deliberations on the project. Then, late January 17, Paul Hastings attorney Jonathan Simpson, who was in Sofia to advise the Bulgarians on the Burgas-Alexandropolous Pipeline (BAP) signing (ref A), told us he was asked unexpectedly to be a "shadow adviser" to the Bulgarian side in last-ditch negotiations with the Russians on South Stream. Simpson was not allowed in the room where Bulgarian Minister of Energy Petar Dimitrov and his Russian counterpart Viktor Khristenko were meeting, but waited in a hallway and offered advice to Tosheva each time she emerged with a new Russian proposal. At the time Simpson reported that the Bulgarians were holding their ground, and could emerge with majority ownership and other key demands. As negotiations wore on into the early morning hours, the Bulgarians acquiesced on many points. The Bulgarian Council of Ministers held an

extraordinary session early January 18 to approve the deal. According to Tosheva, the agreement addresses all Bulgarian concerns, but she fears the language in the document may be too weak to adequately protect Bulgarian interests.

13. (C) Comment: The Bulgarian Government, whose officials were quoted all week as saying a South Stream signing was unlikely during Putin's visit due to Russian unwillingness to meet Bulgarian demands for majority ownership, can expect some tough criticism for going forward with this hastily-signed document. In initial interviews, PM Stanishev and President Parvanov portrayed the agreement as a compromise, but one that protects Bulgarian interests. The Bulgarian opposition has already started to criticize the deal. Initial reports from Paul Hastings attorneys, who have not yet seen the agreement, say that with 50/50 ownership and weak wording on several key clauses, it will be more difficult, but not impossible, to ensure Bulgarian interests are protected going forward.

14. (C) Comment Continued: Russia, with this agreement plus the Belene nuclear plant deal (ref A), is the preeminent energy player in Bulgaria. From our vantage point, even if Bulgaria manages to protect and bolster its interests in a future shareholders agreement on South Stream, this deal has the following consequences:

- Bulgaria is better positioned on the energy map; (President Parvanov highlighted this in public comments, indicating the importance Bulgaria attaches to this consequence of South Stream.)
- Russia increases its energy footprint in the EU;
- Russia gains additional leverage with Serbia on energy deals;
- Nabucco takes a hit, not fatal, but definitely no boost.

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But, the struggle for greater energy independence in Eastern Europe is far from over.

Karagiannis